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ARIZONA CORPORATION COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE REVIEW AND
POSSIBLE REVISION OF ARIZONA UNIVERSAL
SERVICE FUND RULES, ARTICLE 12 OF THE
ARIZONA ADMINISTRATIVE CODE.

Docket No. RT-00000H-97-0137

IN THE MATTER OF THE INVESTIGATION OF
THE COST OF TELECOMMUNICATIONS
ACCESS.

Docket No. T-00000D-00-0672

COMMENTS OF AT&T

IN RESPONSE TO MARCH 20, 2012 PROCEDURAL ORDER

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TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. DISCUSSION AND RESPONSE TO SPECIFIC QUESTIONS POSED BY COMMISSION.....	6
1. In light of the <i>CAF Order</i> , is there a need for the Commission to determine what carriers should be covered by access reform, or a target level for intrastate access charges? Does the <i>CAF Order</i> address all access charge rate elements that have been addressed in these dockets? If not, should the Commission take action with respect to these rate elements? Does it make sense for the Commission to act on access charge reform while the <i>CAF Order</i> is on appeal, or while the FCC continues to consider comments on the Order?	6
2. Do any parties wish to modify or augment their recommendations concerning access charge reform in light of the FCC's actions?	7
3. Given the <i>CAF Order</i> , does the Commission need to establish procedures to implement intrastate access reform? And, if yes, what procedures are recommended?	8
A. Require Early Filing of Access Data.	9
B. Allow for Dispute Resolution.....	12
4. Given the <i>CAF Order</i> , does there remain a need to address the question of whether carriers should be permitted to contract for access rates that differ from their tariffed rates? If there is still a need, is the current record sufficient to resolve the issue?	13
5. Does the <i>CAF Order</i> impact the AUSF? Should the Commission proceed with revisions to the AUSF rules? Why or why not? How should the AUSF be revised? Is the current record sufficient to support any revised recommended reforms?	13
6. In light of the intervening events, do the interested parties have modifications to any of their earlier recommendations about the AUSF not already addressed? Procedurally, how should the Commission consider any revised recommendations?	14
7. Is there any reason why the Commission should not act now concerning centralized administration and automatic enrollment of Lifeline and Link-up?	15
8. In light of the <i>CAF Order</i> 's reference to the role of states in the implementation of the reforms addressed in that Order, should the Commission take further action in these dockets? If yes, what?.....	15
9. Are current rate case procedures adequate or should the Commission establish procedures for rate of return carriers that are not able to absorb lost access charge revenues?.....	15

1	10. Should the Commission seek carrier-specific information about the	
2	anticipated impact of the FCC's <i>CAF Order</i> on carrier revenues? If yes,	
3	from all carriers, or, e.g., only from rate of return carriers?	17
4	11. Are there any other issues that can or should be addressed in these dockets?	
5	If yes, how should they be addressed procedurally?	18
6	III. CONCLUSION	18

1 **I. INTRODUCTION**

2 This Commission recognized the need for access charge reform, and the substantial
3 benefits that reform will bring Arizona consumers, long before the FCC issued its November 18,
4 2011 order reforming the national intercarrier compensation system. Over a decade ago, the
5 Commission stated its goal was to reduce the switched access rates that local exchange carriers
6 ("LECs") charge for in-state calls to parity with the rates those LECs charge for performing the
7 same functions on interstate calls.¹

8 AT&T's recommendation throughout the present proceeding has been simple: the
9 Commission should carry out the objective of access parity it set years ago. After three years of
10 workshops and evidentiary proceedings, the overwhelming weight of the evidence showed that
11 this modest step towards reform would be meaningful and easy to achieve. And just about every
12 party to this proceeding agreed that access reform is both necessary and beneficial.²

13 The Commission has now asked the parties to comment on what steps it should take in
14 light of the FCC's *CAF Order*.³ AT&T addresses the Commission's specific questions below.
15 The short answer, though, is that the FCC's order puts an end to any further arguments about
16 delay or exceptions. It correctly held that the present access charge regime is outdated and
17 harmful to consumers and that reform is necessary for *all* carriers' access charges. The FCC has
18 unequivocally stated that *all* access rates will move to a bill-and-keep framework and for
19 terminating access charges the FCC has set a uniform, nationwide schedule for bringing rates to
20 that bill-and-keep end state. Just as this Commission anticipated over a decade ago, and just as

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22 ¹ Decision No. 63487, p. 12 and Attachment A, p. 2.

23 ² Staff observed in its opening brief that "most all parties agree that the Commission should undertake access
24 reform at this time." Staff Br. at 1.

25 ³ *In re Connect America Fund: A National Broadband Plan For Our Future*, 54 Communications Reg. (P&F) 637,
26 2011 WL 5844975 (FCC rel. Nov. 18, 2011) ("*CAF Order*").

1 AT&T advocated in this proceeding, the FCC has established parity as the first phase of access
2 reform. All carriers must go halfway to parity for terminating access on July 1 of this year and
3 they must implement full parity on the terminating side by July 1, 2013.

4 But, as the March 2012 Procedural Order recognizes, “even if the FCC’s mandate to
5 reduce, and eventually eliminate, intrastate access charges survives challenge, it appears that
6 there may still be issues raised in this proceeding that need to be resolved by the Commission.”⁴
7 While the FCC has established detailed rules for terminating access reform, and established
8 federal mechanisms to help carriers recover the resulting reductions in access revenue, the FCC
9 has also explicitly recognized that state commissions will “play a critical role implementing and
10 enforcing intercarrier compensation reforms.”⁵

11 Below, AT&T responds to each of the Commission’s specific questions regarding the
12 impact of the FCC’s order. Briefly, there are two main points.

13 **First**, the FCC directed state commissions to “oversee changes to intrastate access tariffs
14 to ensure that modifications to intrastate tariffs are consistent with the framework and rules we
15 adopt today.”⁶ The first wave of intrastate tariff changes is already at hand: all carriers must
16 implement tariff reductions to bring their intrastate terminating switched access rates halfway to
17 parity on July 1 of this year.

18 But, because the various LECs’ intrastate access rate structures may differ substantially
19 from the rate structures in their interstate tariffs, going halfway to parity is just not a simple
20 arithmetical exercise of splitting the difference. Rather, this first step involves a rather detailed
21 calculation, in which each LEC computes (i) the access revenues from applying its intrastate

22 ⁴ Procedural Order, p. 4, ll. 18-20.

23 ⁵ *CAF Order*, ¶ 813.

23 ⁶ *Id.* ¶ 803.

1 rates to intrastate volumes for a base period and (ii) the access revenues that result from applying
2 its interstate rates to those base period intrastate volumes.⁷ The LEC must then propose
3 intrastate tariff changes that would yield revenues halfway between the intrastate and interstate
4 calculations.

5 Unless these calculations are fully disclosed and vetted, LECs have an obvious
6 opportunity to “hide the ball” by implementing tariff changes that look substantial on the surface,
7 but do not really comply with the FCC’s rules. Thus, the FCC emphasized “state oversight of
8 the transition process is necessary to ensure that carriers comply with the transition timing and
9 intrastate access charge reductions” required in the FCC’s order.⁸ The FCC specifically urged
10 state commissions “to ensure carriers are not taking actions that could enable a windfall and/or
11 double recovery” and to guard against other “unanticipated types of gamesmanship.”⁹ The FCC
12 has facilitated the supervisory process by issuing spreadsheets to the industry that lay out how
13 the FCC expects carriers to perform the calculations. Copies of the FCC spreadsheets (redacting
14 other matters not relevant to the switched access calculations pertinent here) are provided as
15 **Attachment A** hereto; unredacted versions are presented for reference at **Attachment B**.

16 Without such data, the Commission won’t be able to assure compliance by simply
17 looking at the tariff changes alone. Thus, in order to make it easier for the Commission, its Staff
18 and interested parties to ensure the July 1 access reductions being implemented in Arizona meet
19 the requirements of the *CAF Order*, the Commission (or Staff in its tariff review process) should
20 require all carriers providing intrastate access services in Arizona to provide key data (using the
21 FCC’s spreadsheets) in advance of the July 1, 2012 effective date. AT&T would suggest the

22 ⁷ 47 C.F.R. §§ 51.907(b), 51.909(b).

23 ⁸ *CAF Order*, ¶ 813.

24 ⁹ *Id.*

1 tariff(s) and information be provided no later than June 1, 2012 to ensure ample time for review
2 and clarification. The specific data needed are described and explained in response to Question
3 Number 3 below.

4 Requiring carriers to provide this information in advance of the actual effective date of
5 the tariffs will save the Commission's resources and help prevent the unnecessary filing of
6 complaints after July 1. Because the FCC has ordered a July 1, 2012 effective date for the
7 terminating access tariff adjustments, the June 1 filing date is fully consistent with A.R.S.
8 § 40-367, which specifies a 30-day advance filing and notice requirement to the Commission and
9 public for carriers' changes in their tariffs and rates. The Commission will also put itself, the
10 Staff and the carriers in a better position to review new access rates, get clarification regarding
11 the data, if necessary, and work to resolve any concerns before the new rates take effect.

12 **Second**, while the proper implementation of FCC-ordered terminating access reductions
13 is imminent, the FCC's order also leaves states free to address and implement reforms on the
14 *originating* access side. The FCC stated that "[t]o the extent that states have established rate
15 reduction transitions for rate elements not reduced in this Order, nothing in this Order impacts
16 such transitions."¹⁰ Indeed, the FCC made clear that its order does not "prevent states from
17 reducing rates on a faster transition provided that states provide any additional recovery support
18 that may be needed."¹¹ Thus, the FCC's *CAF Order* does not preclude, and in fact invites, the
19 Commission to implement the reforms to intrastate originating access charges that have already
20 been proposed in this proceeding.

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23 ¹⁰ *Id.* ¶ 816 n.1542.

¹¹ *Id.*

1 Moreover, the need to reduce originating access charges is even more clear in the wake of
2 the FCC's *CAF Order*. Although the FCC has not itself adopted specific reductions to
3 originating access charges at this time, it did "find that originating charges should ultimately be
4 subject to the bill-and-keep framework" and that the legal framework of the FCC's order "is
5 inconsistent with permanent retention of originating access charges."¹² Further, the FCC's order
6 makes it easier to implement reductions to intrastate originating access. This Commission need
7 not worry about offsetting the FCC's reductions to terminating access rates in a revenue neutral
8 fashion, because the FCC has already taken care of that through federal recovery mechanisms for
9 the reductions required in the *CAF Order*. The FCC's express purposes were to "free states from
10 potentially significant financial burdens" and to protect consumers in "early adopter" states from
11 large federally-driven rate increases.¹³ With these federal protections in place, the Commission
12 can implement meaningful reform (and achieve its long-stated goal of access parity) on the
13 *originating* access side, with much less of an impact on retail rates than would have been seen if
14 it had to address the recovery of access reductions on both originating and terminating access.

15 Because the first *terminating* access reductions are nearly at hand, and because the
16 Commission plays a critical role in making sure those reductions are properly implemented, the
17 Commission should first focus on the implementation of the first stage of terminating access
18 reform. Once that first step is complete, however, the Commission should direct the parties to
19 address the subject of originating access reform.

22
23 ¹² *Id.* ¶ 817.

¹³ *Id.* ¶ 795.

1 **II. DISCUSSION AND RESPONSE TO SPECIFIC QUESTIONS POSED BY**
2 **COMMISSION**

3 **1. In light of the *CAF Order*, is there a need for the Commission to determine what**
4 **carriers should be covered by access reform, or a target level for intrastate access**
5 **charges? Does the *CAF Order* address all access charge rate elements that have**
6 **been addressed in these dockets? If not, should the Commission take action with**
7 **respect to these rate elements? Does it make sense for the Commission to act on**
8 **access charge reform while the *CAF Order* is on appeal, or while the FCC continues**
9 **to consider comments on the Order?**

10 With respect to terminating access, there is no need to determine what carriers should be
11 covered by access reform or what target their access charges should meet. The FCC has decided
12 that all LECs should be covered (with slightly different transition plans for rate-of-return and
13 price-cap carriers). It has set forth a detailed multi-year transition plan with mandatory targets
14 for each year. The Commission's role – and we underscore that it is a vitally important one – is
15 to ensure that all Arizona LECs comply with the FCC-mandated reforms. As the first stage of
16 terminating access reductions is just about to get underway, the Commission and Staff should
17 ensure that all LECs provide the information underlying their proposed implementing tariffs, so
18 both Staff and the parties have the opportunity to vet the calculations and resolve disagreements,
19 hopefully without the need for complaint proceedings. *See* answer to Question Number 3 below.

20 While the FCC's terminating access reforms will bring benefits to Arizona consumers
21 and the competitive marketplace, the *CAF Order* does not address all the access charge rate
22 elements that have been addressed in these dockets. In particular, the FCC has not set a national
23 timetable for reducing originating access rates, although it has established a bill-and-keep
24 framework as the ultimate goal.¹⁴ While the FCC requested and received comments on the

¹⁴ *CAF Order*, ¶ 817.

1 specifics of federal reforms, it left states free to take action on originating access elements in the
2 interim.¹⁵

3 Further, because the FCC has taken care of recovery mechanisms to support terminating
4 access reform, the Commission can implement originating access reforms at the state level with
5 *substantially less* impact on retail rates. The Commission should not let this golden opportunity
6 pass and it should accept the FCC's invitation to act on originating access. Thus, once the
7 implementation of the July 2012 phase of terminating access reductions is complete, the
8 Commission should ask the parties to submit brief comments regarding originating access
9 reform.

10 The pending appeals of the *CAF Order* are even more reason to act on originating access
11 now. If the *CAF Order*'s reductions to terminating switched access rates are upheld on appeal –
12 and AT&T believes they will be upheld – the FCC's actions have made it easier for the
13 Commission to implement originating access reform now. In the unlikely event those
14 terminating access portions of the *CAF Order* are overturned, there is no question that this
15 Commission still has jurisdiction to implement its own intrastate access reforms and it should
16 ensure that Arizona consumers receive meaningful relief.

17 **2. Do any parties wish to modify or augment their recommendations concerning access**
18 **charge reform in light of the FCC's actions?**

19 With respect to terminating access, given the current state of the law, AT&T withdraws
20 for now its previous recommendations, because the FCC has given Arizona consumers the
21 meaningful relief that AT&T sought in this proceeding. AT&T's only remaining
22 recommendation for terminating access at this time is that the Commission (or the ALJ or its

23 ¹⁵ *Id.* ¶ 816 n.1542.

Staff) promptly direct carriers to produce the necessary data to ensure that they properly comply with the first phase of FCC-ordered access reductions, which the FCC has mandated for July 1, 2012. See answer to Question Number 3 below.

On the originating access side, AT&T maintains that its recommendation of reducing originating intrastate access rates for all LECs to parity with the corresponding interstate rates (the goal the Commission established for all intrastate access rates) is just as beneficial to Arizona consumers and even easier for the Commission to achieve. The Commission should accordingly request comments on originating access issues after the July 2012 terminating access reductions have been implemented.

3. Given the CAF Order, does the Commission need to establish procedures to implement intrastate access reform? And, if yes, what procedures are recommended?

Yes, the Commission does need to establish procedures to implement intrastate access reform. On terminating access, the FCC has charted the course, but the Commission must remain at the helm to ensure that Arizona LECs follow the FCC's direction and to ensure consumers receive the full benefit of the FCC-mandated reform. Time is of the essence. The first phase of FCC-mandated reductions will begin July 1, 2012 – only six weeks from now – and the calculation of the necessary tariff changes will not be transparent or simple for many Arizona LECs.

The FCC emphasized that “state oversight of the transition process is necessary to ensure that carriers comply with the transition timing and intrastate access charge reductions” required in the Order.¹⁶ Because rates for intrastate access traffic will remain in intrastate tariffs under the CAF Order, the Commission will have to “monitor compliance with [the] rate transition; review

¹⁶ CAF Order, ¶ 813.

1 how carriers reduce rates to ensure consistency with the uniform framework; and guard against
2 attempts to raise capped intercarrier compensation rates, as well as unanticipated types of
3 gamesmanship.”¹⁷ In this regard, the Commission should make sure that “carriers are not taking
4 actions that could enable a windfall and/or double recovery.”¹⁸ To help the Commission fulfill
5 its important role in an efficient and effective manner, AT&T recommends that the Commission
6 (A) require early filing of access data and (B) expressly permit parties to engage in dispute
7 resolution.

8 **A. Require Early Filing of Access Data.** As we noted earlier, the reductions in
9 intrastate terminating access rates that all carriers must put into effect as of July 1, 2012 are not
10 simple or straightforward percentage reductions in rates. Rather, the rules promulgated by the
11 FCC establish a more involved process under which all LECs establish new rates to reflect a 50
12 percent reduction in the revenues generated by their interstate and intrastate rates at a specified
13 demand level.¹⁹

14 These calculations necessarily involve a set of variables, such as interstate and intrastate
15 rate elements and rate structure and FY 2011 usage levels. The rules vest the LECs with a
16 certain degree of discretion in determining the final intrastate rates that will implement the
17 required revenue reduction. How a carrier implements those calculations – and more to the
18 point, whether it does so properly – may not be readily apparent from the face of the tariff, which
19 might otherwise only show the final rates the carrier proposes to charge.

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22 ¹⁷ *Id.*

¹⁸ *Id.* In addition, the Commission retains oversight of interconnection agreement negotiations and arbitrations to
the extent carriers seek to implement the access charge reductions through such agreements. *Id.*

23 ¹⁹ See 47 C.F.R. §§ 51.907, 51.909, 51.911.

1 Thus, to facilitate review by the Commission, Staff and interested parties, as well as to
2 meet statutory requirements, all carriers should provide key data with their proposed tariffs no
3 later than June 1, 2012 to ensure time for review and clarification. Carriers should use the
4 spreadsheets provided by the FCC (*see Attachments A and B* hereto). The specific information
5 to be filed should include the following data points:

6 1. Fiscal Year 2011²⁰ intrastate demand for each rate element included in "Transitional
7 Intrastate Access Service" as that term is defined in 47 C.F.R. § 51.903(j).

8 2. All intrastate access rates in effect as of December 29, 2011.

9 3. All interstate access rates in effect as of December 29, 2011.

10 4. If the carrier's intrastate rate structure and the interstate rate structure are not the same,
11 the carrier should provide an explanation showing how Fiscal Year 2011 intrastate demand for
12 Transitional Intrastate Access Service mapped into the interstate rate structure to determine the
13 interstate revenues used in the FCC-mandated revenue reduction calculations.²¹

14 5. A full description of the methodology the carrier will use to set revised rates to reflect the
15 calculated revenue reduction.²²

16 6. A full description of the rate structure the carrier will opt to utilize as of July 1, 2012, as
17 appropriate under 47 C.F.R. §§ 51.907 (price cap carriers), 51.909 (rate-of-return carriers), and
18 51.911 (CLECs).

19 The first three data points are self-explanatory, as they serve as the foundation for the
20 revenue calculations the LECs are required to undertake. The remaining three points are
21 important, because in many (if not most) cases, carriers' interstate and intrastate rate structures

22 ²⁰ Fiscal Year 2011 means October 1, 2010 through September 30, 2011. 47 C.F.R. § 51.903.

23 ²¹ 47 C.F.R. §§ 51.907(b)(2), 51.909(b)(2), 51.911(b).

²² See 47 C.F.R. §§ 51.907(b)(2)(iv) and (v), 51.909(b)(2)(iv) and (v).

1 and elements do not precisely align. Thus, the “mapping” required under data point 4 ensures,
2 for example, that a LEC is not inappropriately assigning a disproportionate amount of intrastate
3 usage to a high interstate rate element that, in fact, has little or no usage or that the LEC is not
4 “mapping” its intrastate demand into its interstate rates in a manner that fails to reflect how the
5 LEC would have charged carriers had the usage, in fact, been interstate. Such practices, if left
6 unchecked, could result in a higher interstate revenue figure, which, in turn, would result in a
7 lower total revenue reduction when interstate revenues are subtracted from intrastate revenues.

8 Similarly, data point 5 requires the LEC to explain how it translated the properly
9 calculated revenue difference into new intrastate rates. As with the information discussed in data
10 point 4, this information is necessary to deter carriers from making cosmetic rate reductions to
11 intrastate rate elements that have little or no usage associated with them, while leaving the rate
12 elements with higher demand relatively unchanged.

13 Finally, the information sought in data point 6 reflects the choice a LEC with divergent
14 interstate and intrastate rate structures is required to make with its July 1, 2012 rates. In the
15 second phase of the FCC-ordered reforms, which will be effective July 1, 2013, any carrier that
16 has different rate structures for intrastate and interstate switched access service will be required
17 to adopt a common structure based on its interstate configuration.²³ In the upcoming first set of
18 reductions, however, a carrier may elect to modify its rates using its intrastate access rate
19 structure or it may elect to apply its interstate access rate structure and interstate rates.²⁴ In the
20 latter case, the carrier will be entitled to assess a transitional per-minute charge based on end
21 office switching minutes. Given that, the LECs should be required to (1) specify the election

22 ²³ See 47 C.F.R. §§ 51.907(c), 51.909(c).

23 ²⁴ See 47 C.F.R. § 51.907(b)(2)(iv) and (v) for price cap carriers; 47 C.F.R. § 51.909(b)(2)(iv) and (v) for rate-of-
return carriers; and 47 C.F.R. § 51.911(b)(4) and (5) for CLECs.

1 they are making under these provisions and (2) if a carrier elects to apply its interstate rate
2 structure and rates, demonstrate how the transitional charge was calculated and applied.²⁵

3 Requiring carriers to provide this information with proposed tariffs, in advance of the
4 effective date of the tariffs, will assist and streamline Staff's review and help prevent or limit the
5 filing of complaints.

6 **B. Allow for Dispute Resolution.** Given the large number of filings to be made,
7 there is always the possibility of disputes regarding whether rates have been calculated correctly.
8 AT&T will carefully review all carriers' intrastate switched access tariffs (and underlying
9 supporting data pursuant to the terms of the Protective Order entered in this case) and attempt to
10 negotiate with any carriers that improperly reflect the FCC's requirements in an effort to resolve
11 a dispute without the need for Commission action. To facilitate such informal procedures,
12 AT&T requests that the ALJ issue a procedural order confirming that the existing Protective
13 Order in this case will permit all interested stakeholders that execute or have executed the
14 appropriate confidentiality agreement to have access to the completed data templates that the
15 carriers are required to submit on June 1 in their individual dockets. Carriers should also be
16 instructed to provide electronic copies of the proposed tariffs and supporting templates to such
17 stakeholders. If voluntary negotiations are unsuccessful, some complaints could be brought to
18 the Commission, but a voluntary process could resolve or at least narrow disputes without the
19 need for litigation.²⁶

21 _____
22 ²⁵ The new FCC rules, in fact, require carriers electing to establish new intrastate rates in this manner to "notify the
appropriate state regulatory authority of their election" in the new tariff filings. 47 C.F.R. § 51.907(b)(2)(v),
47 C.F.R. § 51.909(b)(2)(v).

23 ²⁶ With respect to disputes that may arise in the context of interconnection agreements, the parties should be
required to avail themselves of the dispute resolution provisions in those agreements.

1 Of course, if informal dispute resolution is unsuccessful and a dispute does lead to formal
2 complaint proceedings, the Commission should not suspend the relevant tariffs. That would
3 leave the pre-*CAF Order* rates, which the FCC has found to be unreasonable and harmful to
4 consumers, in place. Carriers that file deficient tariffs should not be rewarded and the
5 Commission should not permit them to continue charging the old, excessive, unlawful and
6 harmful rates while the Commission assesses their proposed tariff changes. Instead, the
7 Commission should leave the proposed tariff changes in effect as interim rates subject to true-up
8 as of the required July 1, 2012 effective date.

9 **4. Given the *CAF Order*, does there remain a need to address the question of whether**
10 **carriers should be permitted to contract for access rates that differ from their**
11 **tariffed rates? If there is still a need, is the current record sufficient to resolve the**
12 **issue?**

12 As to terminating access, the FCC has decided that its transition plan “sets a default
13 framework, leaving carriers free to enter into negotiated agreements that allow for different
14 terms.”²⁷ There is no need for the Commission to address the question of whether negotiated
15 agreements should be permitted, because the FCC has already resolved that question.

16 **5. Does the *CAF Order* impact the AUSF? Should the Commission proceed with**
17 **revisions to the AUSF rules? Why or why not? How should the AUSF be revised?**
18 **Is the current record sufficient to support any revised recommended reforms?**

18 The *CAF Order* itself does not impact the AUSF. The FCC established two federal
19 recovery mechanisms to address the mandated reductions in terminating access rates: the Access
20 Recovery Charge (“ARC”) and the Connect America Fund (“CAF”). Both mechanisms are
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23 ²⁷ *CAF Order*, ¶ 739.

1 administered at the federal level. The FCC established these mechanisms precisely to avoid
2 placing the burden of terminating access recovery on the states.²⁸

3 With respect to originating access reform, the Commission can address the possibility of
4 recovery through the AUSF at the same time that it decides whether, and by how much,
5 originating access rates should be reduced – after implementation of the FCC-ordered first phase
6 of terminating access reductions on July 1, 2012. At this time, however, one thing is already
7 clear. Because the FCC has shouldered the burden of access recovery for *terminating* access
8 reforms at the federal level, the Commission can reduce the LECs' intrastate *originating* access
9 rates to parity with the corresponding interstate rates with significantly less burden on the AUSF.
10 Indeed, the evidence may show that no AUSF support is needed for this modest but meaningful
11 reform.

12 **6. In light of the intervening events, do the interested parties have modifications to any**
13 **of their earlier recommendations about the AUSF not already addressed?**
Procedurally, how should the Commission consider any revised recommendations?

14 Based on the current state of the law, AT&T does not have any modifications to its
15 earlier recommendations about the AUSF. In particular, AT&T continues to urge that the
16 Commission expand the base of providers and revenues that contribute to the Fund and replace
17 the present two-tiered contribution structure with a single contribution method that applies
18 equally to all providers on a competitively neutral basis. As discussed under Question
19 Number 5, however, the Commission need not and should not address AUSF recommendations
20 until after the parties have implemented the FCC-ordered reductions in terminating access
21 charges effective July 1, 2012. The imminent reforms on the terminating access side should take
22 first priority and there is no need to address the AUSF in connection with those reforms, because

23 ²⁸ *Id.* ¶ 795.

1 the FCC has already established federal mechanisms for the recovery of access revenues on the
2 terminating access side.

3 **7. Is there any reason why the Commission should not act now concerning centralized**
4 **administration and automatic enrollment of Lifeline and Link-up?**

5 AT&T has filed comments with the FCC regarding the Lifeline program (Docket
6 No. 11-42) and, specifically, on issues such as the need to establish a centralized national
7 Lifeline eligibility database. To the extent other parties offer specific proposals on this subject,
8 AT&T reserves the right to respond in its reply comments.

9 **8. In light of the *CAF Order's* reference to the role of states in the implementation of**
10 **the reforms addressed in that Order, should the Commission take further action in**
these dockets? If yes, what?

11 The Commission should take further action. As discussed above, on the terminating
12 access side, the Commission should require all Arizona LECs to provide the supporting
13 information necessary to verify that they will comply with the FCC-ordered reductions effective
14 July 1, 2012. After those terminating access reductions have been implemented, the Commission
15 should direct the parties to address the need for reforms of originating access.

16 **9. Are current rate case procedures adequate or should the Commission establish**
17 **procedures for rate of return carriers that are not able to absorb lost access charge**
revenues?

18 With respect to terminating access, the Commission need not establish procedures for
19 rate of return carriers to obtain recovery of lost access charge revenues resulting from the FCC-
20 ordered reductions. As discussed, the FCC has already established federal recovery mechanisms
21 to address the terminating access reductions it has ordered. These federal recovery mechanisms
22 also recognize the historical downward trend in access revenues. As the FCC stated, even if it
23 had done nothing, "price cap and rate-of-return carriers alike" would "face an increasingly

1 unpredictable [access] revenue stream” and the downward trend of the recent years “will only get
2 worse as demand for traditional telephone service continues to decline.”²⁹ Accordingly, the FCC
3 explicitly rejected a 100 percent revenue-neutral approach to recovery, concluding that the
4 reforms it adopted allowed incumbent LECs to earn a reasonable return on their investment.³⁰

5 If an Arizona incumbent LEC takes advantage of the federal recovery mechanisms, it
6 cannot complain to this Commission that the recovery does not give them a 100 percent
7 guarantee of maintaining today’s revenues – and, in any event, the Commission cannot override
8 the FCC’s mechanisms or give carriers a windfall or double recovery above that specified by the
9 FCC.³¹ If the FCC had not stepped in to reform the irretrievably broken access charge system,
10 customer demand and access revenues would have declined anyway. Conversely, if a LEC
11 chooses not to take advantage of the federal mechanisms for recovery of terminating access
12 reductions (perhaps because it does not wish to comply with the limitations and conditions the
13 FCC placed on recovery), that is a business choice the LEC is free to make. But, the
14 Commission need not allow carriers to eschew the available federal recovery mechanisms and,
15 instead, obtain recovery under some alternative Arizona state mechanism. Of course, the
16 Commission may give rate-of-return LECs additional flexibility in retail pricing to reflect the
17 competitive market that LECs face today and the fact that rate of return regulation, in almost all
18 instances, is obsolete.

19 On the originating access side, the Commission should permit parties to address recovery
20 issues in their comments following implementation of the FCC-ordered reductions in intrastate

21 ²⁹ CAF Order, ¶ 848.

22 ³⁰ *Id.* ¶ 924. Carriers who do not believe that the recovery mechanisms are sufficient may petition the FCC to rebut
this presumption through a “Total Cost and Earnings Review.” *Id.* ¶¶ 924-927. Obviously, the Arizona incumbent
LECs should be required to exhaust that process before seeking some windfall relief from this Commission.

23 ³¹ *Id.* ¶ 813.

1 terminating access rates effective July 1, 2012. However, AT&T maintains (as in previous
2 comments) that the Commission need not delay reform further by first moving to formal rate
3 cases for all carriers. In this proceeding, this Commission can and should make a policy decision
4 to require each LEC to conform its intrastate originating access rates to parity with its
5 corresponding interstate rates. To the extent any carrier believes it deserves different treatment,
6 it may choose not to comply with the Commission's order and then put on its case in the ensuing
7 "show cause" proceeding brought by Staff.

8 **10. Should the Commission seek carrier-specific information about the anticipated**
9 **impact of the FCC's *CAF Order* on carrier revenues? If yes, from all carriers, or,**
10 **e.g., only from rate of return carriers?**

11 As explained in response to Question Number 3, the Commission should direct *all* LECs
12 to provide carrier-specific information underlying their implementation of the FCC-ordered
13 terminating access reductions effective July 1, 2012. While the primary purpose of that
14 information is to fulfill this Commission's responsibility to ensure that the reductions are
15 implemented properly, that information will also allow the Commission to assess the impact of
16 the *CAF Order* on carrier revenues. The same information will also be useful in assessing the
17 benefits of (and ease of implementing) originating access reforms, which the FCC has given
18 states freedom to address.

11. Are there any other issues that can or should be addressed in these dockets? If yes, how should they be addressed procedurally?

AT&T does not have any other issues to raise at this time, other than those discussed above. To the extent other parties seek to raise additional issues, AT&T will respond in its reply comments.

III. CONCLUSION

For the reasons set forth above, the Administrative Law Judge should issue a procedural order:

- (1) Directing LECs to provide in their respective dockets, by June 1, 2012, the tariff(s) and supporting information described in response to Question Number 3, so the Commission, its Staff and interested parties can verify the LECs' compliance with the FCC-ordered reductions in intrastate terminating access charges that will be effective July 1, 2012;
- (2) Extending the terms of the existing Protective Order in this case to protect any confidential data provided with the tariff(s) filed by carriers on terminating access;
- (3) Instructing carriers to provide electronic copies of proposed tariff(s) and supporting data to Staff and the parties to this docket at the time of filing with the Commission; and
- (4) After the July 2012 terminating access reductions are complete, soliciting comments from all parties on their proposals for originating access reforms.

1 RESPECTFULLY SUBMITTED this 15th day of May, 2012.

2 GALLAGHER & KENNEDY, P.A.

3
4 By 

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ATTACHMENT A

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ATTACHMENT B

